

**FACTORS INFLUENCING INTERNAL AUDIT OPERATIONS IN
ELECTORAL BODIES: AN EMPIRICAL ANALYSIS OF TANZANIA
ELECTORAL COMMISSION**

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CERTIFICATION

The undersigned certifies that he has read and hereby recommends for the acceptance by the Open University of Tanzania a dissertation entitled: “ *Factors Influencing Internal Audit Operations in Electoral Bodies: An Empirical Analysis of Tanzania Electoral Commission*” in partial fulfilment of the requirements for the award of Masters Degree in Business Administration

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.....

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Signature

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Date

DEDICATION

I would like to dedicate this work to my parents, family and relatives. I cannot pay you for whatever you have done in my life. I only honour you and let you feel part and parcel of my great achievement.

ACKNOWLEDGEMENTS

A number of individuals have contributed to the successful completion of this work. Here, I will mention only a few.

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ABSTRACT

The main concern of this study was to analyse factors that influence internal audit operations in electoral bodies. Specifically, the study aimed at identifying the extent to which internal audit standards are adhered to at NEC; find out challenges facing effectiveness in internal audit at NEC, as well as find out how best the challenges can be addressed. The study was carried out in Dar es Salaam, at the NEC headquarters. The findings revealed inadequacies in adherence to internal audit standards, as indicated by a number of factors, such as failure to carry out internal audit regularly, lack of professional qualifications among internal auditors, as well as lack of objectivity in the internal auditing exercise. From these findings, it can be revealed that these inadequacies are a threat to the whole issue of accountability and good governance. The findings also revealed various challenges hindering effectiveness of internal auditing, such as lack of independence from employer, inadequate skills among internal auditors, inadequate facilities at the internal audit department, inadequate funds to carry out internal audit, inadequate cooperation among staff, limited transparency and openness, as well as lack of commitment from management staff to be the major challenges. In particular, lack of independence and autonomy from the employer are notable bottlenecks. The respondents gave a number of recommendations on strategies to adopt in order to enhance effectiveness in Internal Audit at NEC.

TABLE OF CONTENTS

CERTIFICATION	ii
COPYRIGHT	iii
DECLARATION	iv
DEDICATION	v
ACKNOWLEDGEMENTS	vi
ABSTRACT	vii
TABLE OF CONTENTS	viii
LIST OF TABLES	xii
LIST OF FIGURES	xiii
LIST OF ABBREVIATIONS AND ACRONYMS	xv
CHAPTER ONE	1
1.0 INTRODUCTION	1
1.1 Background to the Study	1
1.2 Statement of the Problem	4
1.3 Research Objectives	4
1.3.1 General Objectives	4
1.3.2 Specific Objectives	4
1.4 Research Questions	5
1.4.1 General Questions	5
1.4.2 Specific Questions	5
1.5 Relevance of the Study	5
1.6 Organisation of the Study	5

CHAPTER TWO	7
2.0 LITERATURE REVIEW	7
2.1 Overview	7
2.2 Conceptual Definitions	7
2.2.1 Internal Audit	7
2.2.2 Corporate Governance	8
2.3 Corporate Governance: A Conceptual Discourse	8
2.4 The Need for Corporate Governance	10
2.5 Significance of Corporate Governance for Development	12
2.6 Ensuring an Environment Supportive of Sound Corporate Governance	13
2.7 Internal Audit and Corporate Governance	14
2.8 The State of Internal Audit in Tanzania	15
2.9 Operational Challenges of Internal Audit in Tanzania	17
2.10 Empirical Studies on Internal Audit	19
2.11 Research Gap	24
2.12 Conceptual Framework	25
2.13 Theoretical Framework	25
2.14 Summary	27
CHAPTER THREE	28
3.0 RESEARCH DESIGN AND METHODOLOGY	28
3.1 Overview	28
3.2 Research Design	28
3.2.1 Survey Population	29
3.2.2 Area of Research	30

3.3	Sampling Design and Procedures -----	30
3.4	Methods of Data Collection -----	30
3.5	Validity and Reliability -----	31
3.5.1	Validity-----	31
3.5.2	Reliability-----	31
3.6	Data Quality Control -----	32
3.7	Data Processing and Analysis -----	32
	CHAPTER FOUR-----	34
	4.0 PRESENTATION AND DISCUSSION OF THE FINDINGS -----	34
4.1	Introduction-----	34
4.2	Presentation of Findings -----	34
4.2.1	Socio-demographic Characteristics of the Respondents -----	34
4.2.1.1	Gender of the Respondents-----	34
4.2.1.2	Age Range of the Respondents -----	35
4.2.1.3	Marital Status of the Respondents-----	36
4.2.1.4	Highest Educational Qualification of the Respondents -----	36
4.2.1.5	Experience in Employment-----	37
4.2.2	The Extent to which Internal Audit Standards are Adhered to at NEC -----	38
4.2.3	Challenges Hindering the Effectiveness of Internal Audit at NEC -----	39
4.2.4	Strategies to Adopt in Enhancing the effectiveness in Internal Audit at NEC -	40
4.3	Discussion of the Findings -----	41
4.3.1	The Extent to which Internal Audit Standards are Adhered to at NEC -----	41

4.3.2 Challenges Hindering the Effectiveness of Internal Audit at NEC -----	43
4.3.3 Strategies to Adopt in Order to Enhance the Effectiveness in Internal Audit at NEC-----	46
CHAPTER FIVE -----	48
5.0 CONCLUSION, RECOMMENDATIONS AND AREAS FOR FURTHER STUDIES-----	48
5.1 Introduction-----	48
5.2 Conclusion -----	48
5.3 Recommendations-----	50
5.4 Areas for Further Studies -----	50
REFERENCES-----	51
APPENDICES-----	59

LIST OF TABLES

Table 4.1: Gender of the Respondents (N=76)	34
Table 4.2: Age Range of the Respondents (N=76)	35
Table 4.3: Marital Status (N=76)	36
Table 4.4: Highest Level of Education (N=76).....	36
Table 4.5: Duration in Employment (N=76).....	37
Table 4.6: The extent to Internal Audit Standards are Adhered to (N=76).....	38
Table 4.7: Challenges Hindering the Effectiveness of Internal Audit at NEC (N=76)	39
Table 4.8: Recommendations on Strategies to Enhance the Effectiveness in Internal Audit (N=76).....	41

LIST OF FIGURES

Figure 2.1:Conceptual Framework.....	26
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LIST OF APPENDICES

Appendix I: Questionnaire for Non-Management Staff at NEC.....	59
Appendix II: Interview Guide for Management Staff.....	64

LIST OF ABBREVIATIONS AND ACRONYMS

CIA	:	Certified Internal Auditor
CPA	:	Certified Public Accountant
IIA	:	Institute of Internal Auditors
IAG	:	Internal Auditor General
IFRS	:	International Financial Reporting Standards
IPPF	:	International Professional Practices Framework
NEC	:	National Electoral Commission
NGO	:	Non Governmental Organizations
NYSE	:	New York Stock Exchange
PSICG	:	Private Sector Initiative for Corporate Governance
SEC	:	Securities and Exchange Commission
SPSS	:	Statistical Package for Social Sciences
URT	:	United Republic of Tanzania
USD	:	United States Dollar

CHAPTER ONE

1.0 INTRODUCTION

1.1 Background to the Study

In any country, elections, specifically at national level are crucial as they give citizens the choice to choose national leaders that they like. This is more notable in African, countries specifically during the era of multi-party democracy where it is possible for citizens to vote out a leader from the national party. Therefore elections are crucial in deciding who will hold power as well as ensuring a country's development and therefore effective carrying out of elections is useful in ensuring continuation of peace. Efforts therefore need to be put to ensure that elections are fair to avoid the possibility of bloodshed as well as continued support and cooperation by those who fail in the elections because they continue to be citizens.

It is for this reason that elections in Africa and specifically in Tanzania have involved greater budgetary allocations, specifically since the beginning of multiparty democracy. The era has noted stiff competition among contesting parties and candidates as well as additional monetary allocations for any appeals by candidates who consider the elections to be unfair.

As national elections in Africa involve the use of funds, efforts need to be made to ensure its effective management so as to ensure they become instrumental in facilitating electoral processes. It is for this reason that since the advent of era of multiparty in Africa, special bodies have been established to oversee elections

including managing and monitoring election funds. In Tanzania, such a body is the National Electoral Commission (NEC). Being a public (Government) institution, the Commission has to ensure effective internal auditing, a key aspect in corporate governance.

Organisations are becoming increasingly complex due to new, evolving, and emerging risks. Organizations are therefore giving risk management more consideration, but implementing an effective risk management program takes time and discipline. The internal audit function is an important function that has been shown to add value (Carey *et al*, 2000; Carcello and Hermanson 2005) and reduce detected errors by external auditors (Wallace and Kreutzfeldt, 1991). Its objectives are to improve the effectiveness of risk management, control, and governance (IIA, 1999) and it is considered an important governance tool to protect corporations from internal criminal behaviour (Nestor, 2004). Furthermore, literature suggests that internal audit is a vital tool in fraud detection when assets are misappropriated by employees or outsiders (Luehlfiing and Daily 2003; Marden and Edwards, 2005; Belloli, 2006). The ability to detect fraud is enhanced for organizations that have an internal audit function compared to those that do not.

In recent years, the importance of good corporate governance has received significant public and regulatory attention. A crucial part of an organisation's corporate governance is its internal audit function which is concerned with assisting the organization to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control,

and governance processes. Internal auditors provide assurance whether policies are being followed, controls are effective and the organisation is working as management and the public intend and expect. Through objectivity and independence, internal auditors have unique insight into improving organisation processes, procedures, performance and risk management; and ways to reduce costs, enhance revenue and increase profits. Internal auditors are also consultants to their organisations on risk management, governance, cost controls, and maximisation of revenue or simplification of processes.

In Tanzania, the role of internal audit in promoting good corporate governance was recognized, and so various efforts in regulating internal audit in organizations were made. For example, the Bank of Tanzania (BOT) and Capital Markets and Securities Authority (CMSA) have made it mandatory for organisations under their supervision to have internal audit functions (BOT, 2007). The Government has also made laws and regulations that make it mandatory to have internal audit functions. This is notable through the creation of the position of the Internal Auditor General (IAG) of the Government, which is independent to coordinate all internal audit activities both at the central and local government level. Moreover, the National Board of Accountants and Auditors Tanzania (NBAA) made a pronouncement on the adoption of International Professional Practices Framework (IPPF) issued by IIA as a standard for internal audit in Tanzania effective 1 July 2011 (Mbogella, 2011).

The National Electoral Commission (NEC) is a Government institution that oversees electoral processes in Tanzania. Being a government institution, its role in ensuring

good corporate governance cannot be underscored. Like any other public institution, therefore, its internal audit system needs to be investigated to assess its effectiveness in meeting good corporate governance requirements.

1.2 Statement of the Problem

In Tanzania, in spite of established regulations for organizations to carry out internal auditing in an effective manner, the extent to which public institutions have complied is not clear (Carey *et al*, 2000; Carcello and Hermanson, 2005, Mmasi, 2005; Muro, 2007, Mwanri, 2009). This raises concern for the effectiveness of internal audit. This provided the basis for conducting this study, focusing on the National Electoral Commission (NEC), one of the Government institutions.

1.3 Research Objectives

1.3.1 General Objectives

The general objective of this study was to analyse factors that influence internal audit operations in electoral bodies.

1.3.2 Specific Objectives

The study was be guided by the following objectives:

- (i) To identify the extent to which internal audit standards are adhered to at NEC, in terms of proper expertise, accountability, transparency, objectivity and regularity.
- (ii) To find out the challenges facing the effectiveness in internal audit at NEC
- (iii) To find out how best the challenges can be addressed.

1.4 Research Questions

1.4.1 General Questions

The general question of the study was what extent is internal audit in government institutions effective?

1.4.2 Specific Questions

The following specific questions guided the study:

- (i) To what extent are internal audit standards with respects to proper expertise, accountability, transparency, objectivity and regularity, adhered to at NEC?
- (ii) What are the challenges which hinder the effectiveness of internal audit at NEC?
- (iii)How best can the challenges be addressed?

1.5 Relevance of the Study

It is expected that the findings of this study will be useful in understanding how government institutions carry out internal audits, as well as the extent to which they adhere to established standards. Thus, the findings will provide insights on the status of corporate governance in government institutions. The findings will also provide information on the challenges hindering the effectiveness of the internal audit procedures in government institutions as well as provide recommendations for improvement. Lastly, the findings will add to the existing literature on internal auditing and corporate governance.

1.6 Organisation of the Study

Chapter one has focused on the introduction. Specifically, the chapter covered the statement of the problem, research objectives, research questions, as well as

relevance of the research. Chapter Two presents literature review. Under study it cover the theoretical and empirical underpinnings related to internal auditing. Specifically, it focused on conceptual definitions related to internal auditing, internal audit in Tanzania including challenges, various empirical studies carried out in relation to internal audit, as well as the research gap. The chapter also presents the conceptual framework, theoretical framework and statement of hypothesis.

Chapter Three presents the research design and methodology. The chapter covers the research strategy, survey population, area of the study, sampling design, sampling procedure, variables and measurement procedures, methods of data collection, data processing and analysis, expected results of the study, research schedule and the work plan. Chapter Four presents the findings of the study as well as the discussion. These are arranged according to the sequential order of the research questions. Finally, chapter five presents the conclusion and recommendations emanating from the findings of the study. Areas for further study are also suggested.

CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Overview

This chapter presents the literature review on the topic under study. Specifically, the chapter covers conceptual definitions related to internal auditing and corporate governance in Tanzania including challenges, various empirical studies carried out in relation to internal audit and corporate governance, as well as the research gap. Also the chapter will present the conceptual and theoretical framework.

2.2 Conceptual Definitions

This section presents the conceptual definitions as used in this study.

2.2.1 Internal Audit

The Institute of Internal Auditors (IIA) defines Internal Audit as an independent, objective assurance and consulting activity that adds value and improves an organization's operations (<http://www.dailynews.co.tz/home/?n=21390>). This is a globally accepted definition of internal audit as it specifies the attributes of internal audit functions, how it should be positioned; carry out its activities and what should be its focus.

IIA has developed the globally accepted definition of 'internal auditing' it states:

'Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an agency accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.'(p.8)

This study adopted the same definition as per the IIA

2.2.2 Corporate Governance

According to PSICG (2009), corporate governance refers to the manner in which the power of a corporation is exercised in the stewardship of the corporation's total portfolio of assets and resources with the objective of maintaining and increasing shareholder value and satisfaction of other stakeholders in the context of its corporate mission (Private Sector Initiative for Corporate Governance –PSICG, 2009). It is concerned with creating a balance between economic and social goals and between individual and communal goals while encouraging efficient use of resources, accountability in the use of power and stewardship and as far as possible to align the interests of individuals, corporations and society. This study uses the same explanations as provided by PSICG.

2.3 Corporate Governance: A Conceptual Discourse

Corporate Governance is the set of processes, customs, policies and laws and institutions affecting the way a corporation is directed, administered or controlled (Stiglitz, 1999). Corporate Governance includes the relationships among the many players involved (the stakeholders) and the goals for which the Corporation is governed. The principal players are the shareholders, management and the Board of Directors. Other stakeholders include employees, suppliers, customers, banks and other lenders, regulators, the environment and the community at large.

Corporate Governance deals with issues of accountability and fiduciary duty, essentially advocating the implementation of guidelines and mechanisms to ensure good behaviour and protection of shareholders welfare. The term Corporate Governance means the processes by which organizations are directed and controlled.

The Corporate Governance structure spells out the rules and procedures for making decisions on corporate affairs. It also provides the structure through which the company objectives are set, as well as the means of attaining and monitoring the performance of those objectives (Macey, 2001).

Corporate Governance is used to monitor whether outcomes are in accordance with plans and to motivate the organization to be more fully informed in order to maintain or alter organizational activity. It is the mechanism by which individuals are motivated to align their actual behaviours with the overall participants. Cadbury (1992) defines corporate governance as a system by which companies are directed and controlled. The definition suggests a shareholders oriented governance system.

Larzon *et al* (1993) has defined corporate governance as the ends towards which it is exercised as a matter of considerable debate and disagreement. There are so many different ways of defining the concept of corporate governance ranging from the cultures and backgrounds of the concerned institutions. On the other hand, corporate governance refers to the manner in which the power of the organization is exercised in the operations of the organization's portfolio of assets and investments in meeting its objectives (Stiglitz, 1999).

Monks *et al* (2002) describe the relationship between shareholders, directors and management in describing the corporate governance as the systems mechanisms and modalities of exercising power and control over the corporation behaviour and performance.

2.4 The Need for Corporate Governance

The globalisation of economies, and thereby financial and investment markets, in the 1990s has led to the increasing convergence of originally separate initiatives in corporate governance. This development has accelerated following the financial turmoil in world financial markets in 1998. The globalisation of the market place within this context has ushered in an era where the traditional dimensions of corporate governance defined within local laws, regulations and national priorities are becoming increasingly challenged by circumstances and events having an international impact. Some of these, according to Merlyn *et al* (2005) are; institutional investors, as they seek to deploy internationally the massive funds they represent and are insisting on high standards of corporate governance in companies in which they invest. In a number of cases, these institutions have set their own corporate governance standards as a measure for determining their investment decisions.

Public attention through high profile corporate scandals and collapses has forced governments, regulators and boards of corporations to carefully reconsider fundamental issues of corporate governance as essential for public economic interest. In addition, the volatility and instability experienced in emerging markets in recent times has drawn attention to the implications of corrupt practices and maladministration in national and international financial systems and on public expenditure.

Other interesting developments in corporate governance include the rise of “ethical investors” requiring corporations to pay increasing attention to the social role of

business, notably in the areas of environment, health and safety, ethnic and community relations. More and more corporations are adopting social auditing standards in dealing with such matters as the ethical sourcing of products from developing countries and the treatment of communities in which they operate.

The fact is that good corporate governance practices are now becoming a necessity for every country and business enterprise, and are no longer restricted to the activities of public-listed corporations in advanced industrial economies (La Porta, 1999). In the midst of growing international pressure for adherence to good corporate governance standards, the Commonwealth is well placed to play an influential role. The Commonwealth comprises a unique collection of nations – ranging from the developed economies through to vastly differing levels of emerging economies at varying stages of transition. Many rich and diverse cultures are to be found throughout the Commonwealth but all have common features which mean that consensus on a global scale is more easily achieved than among equally diverse countries which do not enjoy such commonalities as described below. Experiences of public sector reform and privatisation in many countries have set demands on state owned enterprises and government agencies to address standards of integrity expected of the public service.

According to Mhilu (2004), good corporate governance is the highest state of development management of the affairs of the organization. It is good because shareholders participate in decision-making processes that services provided by the organization are delivered efficiently, human rights are observed and respected and the management of the organization is transparent, accountable and productive.

The CACG has established the fundamental principles of good corporate governance. These are integrity, accountability, transparency, responsible leadership, responsiveness, rule of law and democracy. In Tanzania, the main Legislation dealing with Corporate Governance is the Companies Act No. 12 of 2002 and the Capital Markets and Securities Act, 1994. The Companies Act and the Public Corporations Act 1992 provide the regulatory framework for corporate governance in corporations, both private and public.

However, much has to be established on how legal, regulatory and supervisory policies influence the good governance in the banks. As cited by Melyoki (2004), there is very little research on the issue of corporate governance in African context. Hence, more researches on the subject should be encouraged.

2.5 Significance of Corporate Governance for Development

Over the past decade or so, the pre-occupation in many economies has been on fiscal and monetary stabilization. There is now a need to shift attention and the focus of policy makers to cope with policies and structures occurring on implementation of those structural adjustment and privatization programmes. Accordingly, in the Commonwealth, there is a need for micro-economic policy instruments which will support the macro-economic policies arising from this transition. Corporate governance can be considered a powerful micro-policy instrument and an effective tool for change at the business enterprise and sectoral level. This can constitute an essential ingredient to the post-privatisation environment. Hence, the emphasis throughout the CACG guidelines is on both private sector and state owned enterprises. This should not mean that these guidelines should not apply equally, as

applicable, to other forms of enterprise such as non-governmental organisations and agencies.

According to Charkham *et al* (2006), corporate governance in the Commonwealth is important and is concerned with; the profitability and efficiency of Commonwealth business enterprises, and their capacity to create wealth and employment; the long-term competitiveness of Commonwealth countries in the global market; the stability and credibility of the Commonwealth financial sectors, both nationally and internationally.

The relationships between business enterprises within an economy and their sustained ability to participate in the global economy; and the relationship between such business enterprises and their various stakeholders comprising shareholders, managers, employees, customers, suppliers, labour unions, communities, providers of finance, and the like.

2.6 Ensuring an Environment Supportive of Sound Corporate Governance

The Basel Committee recognizes that the primary responsibility for good corporate governance rests with boards of directors and senior management of banks. However, there are many other ways that corporate governance can be promoted, including by: Governments – through laws; securities regulators, stock exchanges – through disclosure and listing requirements; auditors – through audit standards on communications to boards of directors, senior management and supervisors; and banking industry associations – through initiatives related to voluntary industry principles and agreement on and publication of sound practices.

For example, corporate governance can be improved by addressing a number of legal issues, such as the protection of shareholder rights; the enforceability of contracts, including those with service providers; clarifying governance roles; ensuring that corporations function in an environment that is free from corruption and bribery; and laws/regulations (and other measures) aligning the interests of managers, employees and shareholders. All of these can help promote healthy business and legal environments that support sound corporate governance and related supervisory initiatives.

2.7 Internal Audit and Corporate Governance

Internal audit is an important part of the corporate governance structure within an organization. Corporate governance includes those oversight activities undertaken by the board of directors and audit committee to ensure the integrity of the financial reporting process (Public Oversight Board, 1993). Three monitoring mechanisms have been identified in the corporate governance literature. These are external auditing, internal auditing, and directorships (Anderson *et al.*, 1993) as well as the audit committee (Institute of Internal Auditors [IIA] 2003).

In recent years, high profile corporate collapses have focused attention on corporate governance and also emphasized internal auditing as part of the governance process. The IIA sees the objective of internal auditing as both supporting and strengthening an organization's governance mechanisms and evaluating and improving the effectiveness of risk management and control (IIA 1999). The importance of internal auditing has also been underpinned by the decision of the New York Stock Exchange

(NYSE) to amend its listing requirements to mandate that all listed companies in the United States (US) have an audit committee (NYSE, 2003) to liaise between internal auditors, external auditors and management, ensuring the independence of the audit function. There is evidence in the US that the Securities and Exchange Commission (SEC) also attaches importance to internal auditing as there have been recent cases where enforcement actions by the SEC and subsequent settlements have required the registrant to engage internal auditors (Carcello and Hermanson. 2005). In Australia, recent changes to the Corporations Act and the Australian Stock Exchange (ASX) Listing Rules have strongly emphasized the importance of good corporate governance. Given the perceived importance of internal audit as part of good corporate governance, these changes are likely to enhance the role and importance of internal audit in the Australian environment.

2.8 The State of Internal Audit in Tanzania

By global standards, Tanzania has made some efforts in regulating internal audit in organizations. For instance the Bank of Tanzania (BOT) and Capital Markets and Securities Authority (CMSA) have made it mandatory for organisations under their supervision to have internal audit functions (BOT, 2007).

The Government has laws and regulations that make it mandatory to have internal audit functions of greater importance is the recent move by the Government to create the position of the Internal Auditor General (IAG) of the Government which will be independent and will coordinate all internal audit activities both at the central and local government level of even greater importance in regulation of internal audit in Tanzania, is a recent pronouncement by the National Board of Accountants and

Auditors Tanzania (NBAA) on the adoption of International Professional Practices Framework (IPPF) issued by IIA as a standard for internal audit in Tanzania effective 1 July 2011 (Mbogella, 2011). IPPF comprises of the definition of internal audit, international standards for the professional practice of internal audit, code of ethics applicable to internal auditors, practice guide, practice advisories and position papers. The first three items are mandatory guidance to internal auditors while the last three are strongly recommended guidance.

The adoption of IPPF was intended to make it mandatory for internal auditors in Tanzania to conduct their audits in line with global standards and best practice. It will also make it mandatory to internal auditors to adhere to the global code of ethics for internal auditors. Code of ethics for internal auditors comprises four principles: integrity, objectivity in doing their work, competency, and maintaining confidentiality (not using for personal gain the information they obtain during audit). Many countries have not yet adopted IPPF (the Daily News, 2011).

Although several regulations have made it mandatory to have internal audit functions, unfortunately most of these regulations have not defined what internal audit is or if they have defined they have not used a globally accepted definition issued by the Institute of Internal Auditors (IIA).

In addition, the regulations have not specified what standards internal auditors should use to perform their work. Moreover, some regulations have led to the creation of internal audit functions that are not independent. The globally accepted standard for internal audit is the International Professional Practices Framework (IPPF). These

are shortcomings that need to be addressed, particularly now that NBAA has made it mandatory for internal audits in Tanzania to be performed in line with IPPF.

2.9 Operational Challenges of Internal Audit in Tanzania

Looking at the operation side, one sees many challenges to overcome. For example, according to Mbogella (2011), the reporting structure of internal audit, particularly in the public sector is not in line with best practice. Most audit functions in the public sector report to Accounting Officers (Chief Executive Officer in the private sector) and not to the Board Audit Committee or a similar body. This limits the independence and the effectiveness of the audit functions. Some other challenges as listed by Mbogella are: skills, resources and independence and effectiveness of audit committees.

A skill as noted by Mbogella is a challenge for internal audit in Tanzania. This is related to shortage of qualified internal auditors. For a long time, most internal auditors in Tanzania have been professional accountants with Certified Public Accountant (CPA) qualifications. However, for internal auditors in Tanzania to perform internal audits that add value and to be able to benchmark their work with global standards they need to have Certified Internal Auditor (CIA) qualification besides CPA.

Also, it is important to ensure internal audit functions have multiple skills within their departments to be able to audit all major areas of operations of their organisations. Currently, Tanzania has less than 20 certified internal auditors compared to over 200 in Kenya. This means internal auditors in Tanzania will have

challenges competing with Kenyans in International Internal Audit jobs. There is a need for practising internal auditors in Tanzania who do not have CIA to aspire to get it. The examination centre for CIA examinations is available in Dar es Salaam. Moreover, currently, there is no university in Tanzania which offers a degree course specialising in internal audit. In South Africa, Botswana and other African countries there are universities offering a degree course in internal auditing. With a growing demand of qualified internal auditors in the country, there is a need for university to exploit this opportunity.

There is also a challenge of resources in terms of budgets and adequate personnel for internal audit functions in Tanzania, particularly those in the public sector. This has led to inadequate coverage by internal audit functions. The recent report of the Controller and Auditor General (CAG) of the Government has shown this to be one the biggest challenges for internal audits in the public sector. Internal audits functions have few staff or no staff at all to execute internal audits. This has limited the effectiveness of internal audit functions.

Independence and effectiveness of audit committees are yet other challenge. In the public sector, audit committees are made up of largely executive management. For audit committees to be effective they should be composed on non-executive and independent members. Non-executive members are those that are not responsible for the day to day running of the business. Independent members are those that have no interest or business relationship with the entity. The composition of audit committees in the public sector violates the principle rule in auditing-that one cannot audit

himself/herself. The executive management cannot audit itself and take steps against it.

2.10 Empirical Studies on Internal Audit

Despite the increasing focus on internal audit, there have been little studies on the benefits and importance of this function. Various studies, such as Carey *et al.*, (2000) carried out in Australia have used an agency cost framework to illustrate the value relevance of the internal audit function. Their findings revealed that the variables of size, debt or agency are not associated with the presence of an internal audit function in Australian family owned companies, and yet they used internal and external audit as monitoring substitutes by these companies (Carey *et al.* 2000).

A study carried out in the US by Carcello and Hermanson (2005) was examined the size of internal audit budgets found that they were positively related to company size; leverage; financial, service, or utility industries; inventory; operating flows; and audit committee review of the internal audit budget. The findings revealed showed that internal audit budgets were negatively related to the percentage of internal auditing that was outsourced. The overall conclusion was that companies facing higher risk will increase their organizational monitoring through internal audit and provide evidence of the importance of the internal audit function.

Gramling *et al.* (2004) conducted a literature review on the role of internal auditing in corporate governance. This review found that the role of an internal audit function in corporate governance has been analysed using the external auditors' evaluation of

its quality, determinants of its reliance decision, the extent and nature of its work relied on by the external auditor and other aspects of the external audit (ibid).

The examination of literature review shows that most studies on internal audit have been related to the perceptions of the external auditor and whether or not the external auditor utilizes the internal auditor's work. Another way of evaluating the work of internal auditors is to examine how well they detect errors within an organization and there have been limited studies on this topic. A study on this by Wallace and Kreutzfeldt (1991) found a number and magnitude of errors requiring adjustment by the external auditor. They have been found to be substantially lower for entities that had an internal audit department compared to those that did not have an internal audit department. A survey by Birkett *et al.*

(1999) found out that fraud detection was being included in internal audit work in Australia, in compliance to additional requirements imposed on external auditors to consider the possibility of fraud when conducting an audit.

Some studies have evaluated the ability of internal auditors to perform fraud-related work. For example, a study by Apostolou *et al.* (2001) revealed that external and internal auditors achieved a high level of consensus in their financial statement fraud risk ratings, suggesting that internal auditors are as aware as external auditors of where fraud is likely to be detected.

The nature of the internal audit function is also an important consideration that may potentially affect its value to an organization. Companies may use their own staff (insource), use an external firm (outsource) or a combination of the two. While

outsourcing the internal audit function does not significantly affect users' perceptions of auditor independence or financial statement reliability (Lowe *et al.* 1999) or their perception of protection from financial statement fraud (James 2003), companies that decide to outsource perceive that external providers are technically more competent (Carey *et al.* 2006). However, a limitation with these prior studies is that they were performed by measuring perceptions not actual performance. Given that many organizations make decisions about whether to insource or outsource their internal audit function, the quality of performance of these respective functions is an issue that warrants more examination than just "perceptions."

Reviewing the internal audit literature shows limited studies on the importance and benefits of internal audit *per se* or the relative importance of insourcing compared to outsourcing the internal audit function. The present study addressed these questions by examining how effective the internal audit function is in detecting and reporting fraud.

Few studies on internal auditing have been carried out in the context of Tanzania. The focus of the studies was mainly on internal auditing rather than external auditing in public and private organizations. For example, Muro (2007) carried out a study on TTCL and found out that staff carrying out the internal auditing functions at the organization were inadequate and lacked the necessary skills to perform their job effectively. Moreover, the findings showed that there was no auditing committee at the organization. Another study by Mmasi (2005) found out that lack of resources hindered the effectiveness in auditing as it resulted into lack of funds and resources

to support periodic auditing as well as inadequacy of staff to carry out auditing functions. The study recommended allocation of more resources to support recruitment of auditing staff as well as support periodic auditing.

A study by Mwanri (2009) found out that generally, fraud detection by internal auditors was low which could mean that the parent organization observed corporate governance. However, he cautioned about objectivity and competence of the internal auditors and so recommended employment of auditors possessing the right qualification (such as Certified Internal Auditor-CIA) as well as outsourcing of the internal auditing functions.

Deemay (2009) investigated the state of auditor independence in small audit firms in Tanzania. He found out that the rotation of audit firms/partners in small audit firms seemed to be rarely practiced and hence their independence is in question. It was also revealed that small audit firms were influenced by their clients to reduce audit fees especially during initial engagement something detrimentally impair their independence.

Urio (2007) assessed the adoption of International Financial Reporting Standards (IFRS) in small medium enterprises in Tanzania. He found out that the majority of SMEs have adopted the IFRSs after getting assistance from the consultants or external auditors. According to the findings lack of training and guidance on the application of the standards, lack of awareness on the importance and advantages of the IFRS, high cost and complexity of the standards are the constraints that hinder SMEs from adopting IFRS.

Tinkasimile (2009) investigated the independence and general audit environment of internal auditors in small and medium sized banks in Tanzania. The findings revealed that the Board Audit Committees were not seen effective to enhance Internal Audit independence. Issues such as of setting and approval of Internal Audit budgets, compensation were left to management. Other issues were lack of private meetings and close follow-up of Board Audit Committee with internal auditors.

The findings confirmed that Internal Auditors desires that Board Audit Committee should be responsible for governance and performance evaluation of internal audit function, ensuring internal audit has adequate resources to discharge its increasing scope of activities.

Sigalla (2009) investigated effectiveness of internal audit in fraud detection in Tanzania commercial banks. The study found out that analytical reviews, independent confirmations and inquiry techniques are effective ways of detecting fraud. It also found that other ways through which fraud can be detected includes use of forensic accountants, continuous auditing, staff rotation, whistle blowing and fraud reporting. The study also found that relevant training has a direct impact on internal auditors' ability to detect fraud.

Swai, (2006) conducted a study on the effectiveness and the perceived value of internal audit in Tanzania commercial banks where found out that auditees in commercial banks views Internal Audit function as a value adding function that the banks cannot do without. The study also revealed a number of issues that hinder the effectiveness of Internal Audit function, such as shortages of internal audit staff,

limited internal auditors' exposure and using manual system to audit computerized environment.

2.11 Research Gap

Most of the studies have been carried out in developed countries, with fewer studies carried out in the context of developing countries like Tanzania. The findings of these studies generally showed that in the developed countries both internal and external audit were used for monitoring purposes by companies (Carey *et al.* 2000). Moreover, many companies outsourced internal auditing (Carcello and Hermanson, 2005). Moreover, Gramling *et al.* (2004) emphasizes that most studies have analysed the role of an internal audit function in corporate governance using the external auditors' evaluation of its quality, determinants of its reliance decision, the extent and nature of its work relied on by the external auditor and other aspects of the external audit. Examination of this literature review shows that the majority of the research on internal audit has been related to the perceptions of the external auditor and whether the external auditor utilizes the internal auditor's work or not.

The literature also shows that fewer studies examined how well internal auditors detect errors within an organization (Wallace and Kreutzfeldt, 1991). Some studies have also shown that external and internal auditors achieved a high level of consensus in their financial statement fraud risk ratings, suggesting that internal auditors are as aware as external auditors of where fraud is likely to be detected (Apostolou *et al.* 2001). However, it was noted that companies that decide to outsource perceive that external auditors are technically more competent (Carey *et al.* 2006).

The fact that fewer studies were carried out in the context of developing countries (Mmasi, 2005; Muro, 2007; Mwanri, 2009) and the fact that most of the studies focused on external rather than internal auditors provides a justification for conducting this study. Moreover, there is no study which has been carried out in Tanzania focusing on government institutions. This study then intended to fill this knowledge gap.

2.12 Conceptual Framework

This study assumes that government institutions have internal audit departments. The effectiveness in operations of internal auditing is influenced by a number of factors, such as legal factors, political factors, standard-related factors, environmental factors, as well as organisational factors. In order to ensure effectiveness in internal auditing and henceforth realization of corporate government in government institutions, there will be a need for having well defined internal audit standards, adequate internal auditors, internal auditors with the right qualifications, regular implementation of internal auditing as well as availability of resources to support internal auditing (to facilitate training of internal auditing staff, acquisition of appropriate hardware and software for internal auditing, regular implementation of internal auditing, and the like.). Figure 2.1 shows an illustration of the operations of internal auditing.

2.13 Theoretical Framework

This study employs Agency Theory which is extensively employed in the accounting literature to explain and predict the appointment and performance of external auditors (Adams, 1994). According to this theory, an agency relationship arises when

one or more principals (e.g. an owner) engage another person as their agent (or steward) to perform a service on their behalf. Performance of this service results in the delegation of some decision-making authority to the agent. This delegation of responsibility by the principal and the resulting division of labour are helpful in promoting an efficient and productive economy. However, such delegation also means that the principal needs to place trust in an agent to act in the principal's best interests.

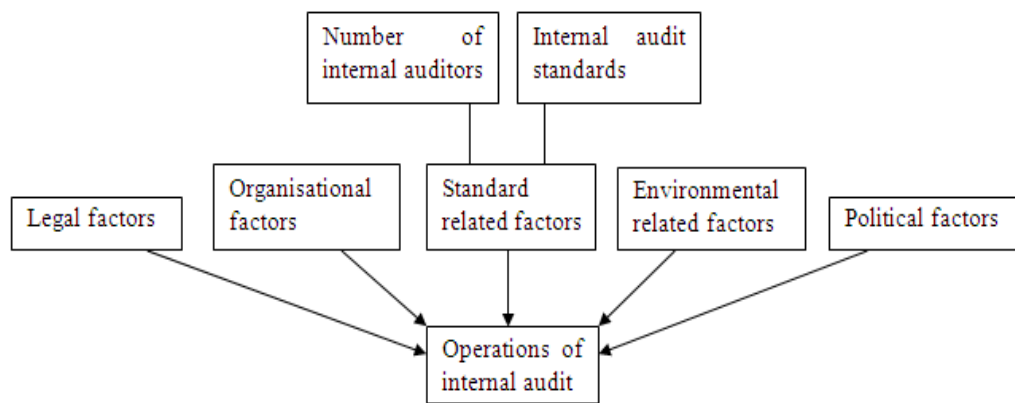


Figure 2.1: Conceptual Framework

Source: Own developed model (2013)

Agents are likely to have different motives to principals. They may be influenced by factors, such as financial rewards, labour market opportunities, and relationships with other parties that are not directly relevant to principals. This can, for example, result in tendency for agents to be more optimistic about the economic performance of an entity or their performance under a contract than the reality would suggest. Agents may also be more risk averse than principals. As a result of these differing interests, agents may have an incentive to bias information flows. Principals may also express concerns about information asymmetries where agents are in possession of information to which principals do not have access.

This, Agency theory provides a useful theoretical framework for the study of the internal auditing function. Agency theory not only helps to explain and predict the existence of internal audit but that it also helps to explain the role and responsibilities assigned to internal auditors by the organization. Moreover, agency theory predicts how the internal audit function is likely to be affected by organizational change.

2.14 Summary

This chapter has presented the theoretical and empirical aspects related to the topic under investigation. Specifically, the literature has shown that most studies were carried out in the context of developed countries, with fewer studies carried out in developing countries like Tanzania. Moreover, the chapter has presented the theories and conceptual frameworks.

CHAPTER THREE

3.0 RESEARCH DESIGN AND METHODOLOGY

3.1 Overview

This chapter presents the design and methodology used in this study. Specifically, it focuses on the research design, population, sample size, sampling techniques, data collection methods, as well as data analysis procedure, among others.

3.2 Research Design

Kothari (1990) defines research design as the conceptual structure within which research is conducted. According to him it constitutes the blue print for the collection, measurement and analysis of data. Selltiz (1976) asserts that a research design can be conceived as the arrangement of conditions for the collection and analysis of data in a manner that aims to combine issues relevant to the research purpose with economy in procedure. Therefore, the research problem and objective of the study were the main determinants of the kind of research design to be applied for this particular study.

This study employs both quantitative and qualitative data. Qualitative research designs enable researchers to give a complete, detailed description of observed phenomenon, while quantitative research designs enable them to construct statistical models in an attempt to explain what is observed. Quantitative research approach provides comparisons and statistical aggregation of data. Furthermore, quantitative research approach is empirical, using numerical and quantifiable data whereas conclusions are based on experimentation and on objective as well as systematic

observation (Belli, 2008). Qualitative research approach uses a naturalistic approach that seeks to understand phenomena in context-specific settings, such as "real world settings where the researcher does not attempt to manipulate phenomenon of interest. Golafshani (2003) reports that qualitative research is defined as any kind of research that produces findings not arrived at by means of statistical procedures or other means of quantification. Instead, it is the kind of research that produces findings arrived from real-world settings whereby "phenomenon of interest unfolds naturally."

In employing qualitative research design, a case study approach was used, where the focus was on a unit of analysis. Taking into consideration the research problem, objectives and the scope of this study that was limited to NEC in Dar es Salaam, a case study design was felt to be more appropriate for in-depth study at that particular institution. A case study design deals with a specific area, which could represent the whole or part of the study area. On the other hand, the design offers an opportunity to study a limited number of units, while the variables and situation under which the area to be studied are diversified. The method is useful in that it narrows the area of the study and provides adequate and relevant information to the research problem. Other qualities of the case study design are its simplicity and in-expensiveness compared to other designs.

3.2.1 Survey Population

NEC staff including internal auditors formed the population for this study. These were made up of management and non- management staff. These were considered to be in a good position to provide data for this study.

3.2.2 Area of Research

The study was conducted in Dar es Salaam, at the National Electoral Commission (NEC) headquarters. The selection of NEC was based on the fact that it is a government institution and so was expected to conform to the principles of corporate governance.

3.3 Sampling Design and Procedures

The sample size comprised 4 internal auditors, 76 non- management staff as well as 4 management staff. The methods used in picking the sample were simple random sampling technique and purposive sampling technique. Simple random sampling technique was used to select 76 non-management staff from the list of staff which was obtained from NEC Headquarters. This sampling technique gives opportunity for each unit in a population to get opportunity to be included in the sample. Purposive sampling technique was used to select 4 management staff as well as 4 internal auditors for interview purposes. This technique is preferable in selecting individuals who are information rich.

3.4 Methods of Data Collection

Two types of data were used in collecting data. These were secondary and primary data. Secondary data for this study was collected through review of documentary sources, in which books, journal articles and reports, both published and unpublished were reviewed. Online sources were also consulted. Primary data was collected through questionnaire and interview. The questionnaire was administered to 76 non-management staff at NEC. All of the questionnaire were filled by the respondents,

making a response rate of 100%. According to Kidder (1981), questionnaires are advantageous in terms of economy, lack of interviewer bias, and the possibility of anonymity. The questions were both close-ended and open-ended in order to increase the validity of the responses.

Face-to-face interviews were administered to 4 management staff at NEC as well as 4 internal auditors. An interview is advantageous because it has high return rate (Kidder, 1981). It helps to clarify ambiguous responses and fill in missing gaps.

3.5 Validity and Reliability

3.5.1 Validity

Validity refers to whether the research method used in the research measures what the researcher has intended it to measure (Ghauri and Grønhaug, 2005). In this study, validity was tested by testing research tools during pilot study to see whether the responses given were well interpreted and provide valid information.

3.5.2 Reliability

According to Ghauri and Grønhaug (2005), reliability is the stability of the measure. Research reliability means how similar the results would be if another researcher conducted the same research in another place and time. If the acquired results are similar, the research can be said to be reliable. In this study, it was fairly easy to get the same results if the survey would be repeated by another researcher in another place and time. In the questionnaire, some of the questions were closed questions so as to ensure reliability.

3.6 Data Quality Control

Data quality control was used in order to ensure correctness of the information obtained from the respondents. To ensure correctness of the information obtained from the respondents, the study used triangulation, pretesting of research instruments and ethical issues and confidentiality. Triangulation involves the use of multiple data-gathering techniques to investigate the same phenomenon (Berg, 2004). Triangulation serves as a means of mutual confirmation of measures and validation of findings. To collect data for this study, various methods were used.

Before fieldwork, the instruments were pre-tested. This was done in order to establish the validity and reliability of the instruments. Another reason was to determine if the questions in the instruments met the needs and objectives of the study. Views and criticisms that were noted from the tests were incorporated into the questionnaires wherever necessary for improvements. Ethical Issues and Confidentiality was another important aspect which was considered for this study. Prior to the main survey, the respondents were informed about the purpose of the study and were assured that confidentiality would be maintained. The researcher assured them that the information collected would be used for academic purposes and not otherwise.

3.7 Data Processing and Analysis

Analysis of data is a process of inspecting, cleaning, transforming, and modelling data with the goal of highlighting useful information, suggesting conclusions, and supporting decision making. Data analysis has multiple facets and approaches,

encompassing diverse techniques under a variety of names, in different business, science, and social science domains. Quantitative data is measured or identified on a numerical scale. The methods used were descriptive statistics inferential statistics. The former described a distribution of measurements using statistics of the sample in terms of frequencies, means, mode, median, charts and graphs. The latter assessed the degree of certainty of inferences when such inferences are drawn from sample data of the population (Patton, 1990).

The software used in analyzing quantitative data was Statistical Package for Social Sciences (SPSS). Correlation analysis helped to determine whether and how strongly pairs of variables are related; while standard deviation was used to overcome the problem of dealing with squared units.

Qualitative data analysis is to make sense of massive amount of data, reducing the voluminous information into significant patterns and construction of communicable information with the essence of revealing truth about the social phenomena (ibid.). In analyzing qualitative data, content analysis was used.

CHAPTER FOUR

4.0 PRESENTATION AND DISCUSSION OF THE FINDINGS

4.1 Introduction

The main concern of this study was to analyse factors that influence internal audit operations in electoral bodies. Specifically, the study aimed at identifying the extent to which internal audit standards are adhered to at NEC; find out challenges facing the effectiveness in internal audit at NEC, as well as find out how best the challenges can be addressed. The study was carried out in Dar es Salaam, at the NEC headquarters. The aim of this chapter therefore is to present the findings as well as the discussion of the findings. The first part presents the findings and the second part presents the discussion of findings.

4.2 Presentation of Findings

This section presents the findings. The section begins with the socio-demographic characteristics of the respondents, followed by the major findings as obtained from the field.

4.2.1 Socio-demographic Characteristics of the Respondents

4.2.1.1 Gender of the Respondents

The findings on the gender of the respondents are presented in Table 1:

Table 4.1: Gender of the Respondents (N=76)

Variable	Frequency	Percentage
Male	39	51.3
Female	37	48.7
Total	76	100

Source: Field Data, (2012)

The information in Table 4.1 shows that 39 (51.3%) of the respondents were male while 37 (48.7%) respondents were female. This shows that there were almost an equal number of male and female respondents. This is due to the fact that women nowadays are increasingly employed in the formal sector, in the same way as men. It was therefore possible to get information from both genders.

4.2.1.2 Age Range of the Respondents

The respondents were required to indicate their age range. The responses are presented in Table 4.2.

Table 4.2: Age Range of the Respondents (N=76)

Variable	Frequency	Percentage
Less than 30 years	11	14.5
30-39 years	27	35.5
40-49	33	43.4
50 years and above	5	6.6
Total	76	100

Source: Field Data, (2012)

Table 4.2 shows that 11 (14.5%) respondents were aged below 30 years, 27 (35.5%) respondents were aged between 30 and 39 years, 33 (43.4%) respondents were aged between 40 and 49 years, while 5 (6.6%) respondents were aged 50 years and above. As shown in Table 4.2, the majority of respondents were aged 30 years and 49 years. Fewer respondents were aged less than 30 years or 50 years and above.

4.2.1.3 Marital Status of the Respondents

Information on the marital status of the respondents is presented in Table 4.3.

Table 4.3: Marital Status (N=76)

Marital Status	Frequency	Percentage
Married	52	68.4
Single	20	26.3
Widowed	3	3.9
No response	1	1.3
Total	76	100

Source: Field Data, (2012)

Table 4.3 shows that 52 (68.4%) respondents were married, 20 (26.3%) respondents were single, while 3 (3.9%) respondents were widowed. One (1.3%) respondent did not answer the question. As shown in Table 4.2, the majority of respondents were married.

4.2.1.4 Highest Educational Qualification of the Respondents

The study also sought from the respondents about their educational level. The findings are presented in Table 4.4.

Table 4.4: Highest Level of Education (N=76)

Variable	Frequency	Percentage
University degree	28	36.8
Advanced diploma	14	18.4
Diploma	24	31.6
Certificate	10	13.2
Total	76	100

Source: Field Data, (2012)

Table 4.4 shows that 28 (36.8%) respondents had a university degree, 14 (18.4%) respondents had Advanced Diploma, 24 (31.6%) respondents had Diploma, while 10 (13.2%) respondents had Certificate. As shown in Table 4.4, majority of respondents were educated, as their educational level of most respondents ranged from diploma to degree. Fewer respondents were certificate holders.

4.2.1.5 Experience in Employment

Experience in employment is an important factor as it has a bearing on the competence of staff. The knowledge obtained in class or college becomes more meaningful the more one puts it into practice. The findings are presented in Table 4.5.

Table 4.5: Duration in Employment (N=76)

Experience in Employment	Frequency	Percentage
Less than 2 years	9	11.8
2-5 years	24	31.6
More than 5 years	43	56.6
Total	76	100

Source: Field Data, (2012)

Table 4.5 shows that 9 (11.8%) respondents indicated that they were in employment for less than 2 years, 24 (31.6%) respondents for between 2 and 5 years, while 43 (56.6%) respondents had been in employment for more than 5 years. As shown in Table 4.5, the majority of respondents had been in employment for more than 5 years. This can be attributed to the fact that staffs are normally employed on

permanent terms or on contract terms that is renewed after a specified period of time, usually two years. They are also more secure at their job.

4.2.2 The Extent to which Internal Audit Standards are Adhered to at NEC

The first research objective sought to find out the extent to which internal audit standards were adhered to at NEC. A list of options was made from which the respondents were required to choose between "Yes", "Uncertain" and "No" for each of the listed options. The findings are presented in Table 4.6.

Table 4.6: The extent to Internal Audit Standards are Adhered to (N=76)

Variable	Yes		Uncertain		No	
	Freq	%	Freq	%	Freq	%
Internal audit is regularly carried out	18	23.7		6.6	53	69.7
Internal audit reports are communicated	29	38.2	4	5.3	43	56.6
Internal auditors have the right qualifications	29	38.2	6	7.9	41	53.9
Internal audit reports are externally investigated	28	36.8	4	4.3	44	57.9
There is transparency and accountability	8	10.5	42	55.3	27	48.2
Internal auditing is carried out at minimum possible costs	23	30.3	46	60.5	8	10.5
Automated systems are used in internal auditing	49	64.5	3	3.9	24	31.6
Proper auditing software is used	24	31.6	43	56.6	9	11.8

Source: Field data (2012)

Table 4.6 show responses from the respondents on the extent to which internal audit standards are adhered to. The findings reveal that the majority of the respondents disagreed to statements that internal audit was regularly carried out, internal audit reports were communicated to stakeholders, internal auditors had the right qualifications, as well as internal audit reports were externally investigated. Moreover, the majority of respondents were uncertain as to whether there were transparency and accountability, internal auditing was carried out at minimum possible costs, as well as the use of proper auditing software. Lastly, the majority of respondents agreed that automated systems were used in internal auditing. The findings in Table 4.6 show that generally there were inadequacies on the extent to which internal audit standards were adhered to at surveyed organisation.

4.2.3 Challenges Hindering the Effectiveness of Internal Audit at NEC

The second objective sought to find out challenges hindering the effectiveness of internal audit at NEC. The findings are presented in Table 4.7.

Table 4.7: Challenges Hindering the Effectiveness of Internal Audit at NEC (N=76)

Variable	Frequency	Percentage
Internal Auditors not independent	41	53.9
Inadequate skills among Internal Auditors	22	28.9
Inadequate Internal Auditors	32	42.1
Inadequate facilities	13	17.1
Inadequate funds for internal Auditing	29	38.2
Inadequate cooperation	10	13.2
Limited transparency and openness	9	11.8
Lack of commitment	6	7.9

Source: Field Data, (2012)

The findings in Table 4.7 reveal a number of challenges hindering the effectiveness of internal auditing at the surveyed organization. The challenges include the following: Internal auditors not independent (41 or 53.9% of the respondents), inadequate skills among internal auditors (22 or 28.9% of the respondents), inadequate internal auditors (32 or 42.1% of respondents), inadequate facilities (13 or 17.1% of the respondents), inadequate funds for internal auditing (29 or 38.2% of the respondents), inadequate cooperation (10 or 13.2% of the respondents), limited transparency and openness (9 or 11.8% of the respondents), as well as lack of commitment (6 or 7.9% of the respondents).

4.2.4 Strategies to Adopt in Enhancing the effectiveness in Internal Audit at NEC

After knowing the various challenges faced in internal auditing, it was important to know from the respondents the remedial measures that could be adopted to improve the situation. The findings as obtained from the respondents are presented in Table 4.8.

The findings in Table 4.8 reveal a number of responses from the respondents on what should be done so as to improve the effectiveness in internal auditing. The respondents recommended that there should be enforcement of internal audit standards, ensuring independence of internal auditors, recruitment of qualified internal auditors, regular internal auditing and prioritising in staff training and development. Moreover, the respondents recommended that more funds should be allocated allocating more funds for internal auditing, improving the working environment, update hardware, software and working tools, ensure transparency and

openness, intensify efforts against corruption, as well as cooperation during the process of auditing.

Table 4.8: Recommendations on Strategies to Enhance the Effectiveness in Internal Audit (N=76)

Variable	Frequency	Percentage
Enforcement of internal audit standards	48	63.2
Ensuring independence of internal auditors	44	57.9
Recruitment of qualified internal auditors	43	56.6
Regular internal auditing	47	61.8
Prioritising in staff training and development	65	85.5
Allocating more funds for internal auditing	32	42.1
Improving the working environment	18	23.7
Update hardware, software and working tools	14	18.4
Ensuring transparency and openness	25	32.9
Intensify efforts against corruption	6	7.9
Cooperation during the process of auditing	6	7.9

Source: Field Data, (2012)

4.3 Discussion of the Findings

This section presents the discussion of the findings based on the objectives of the study.

4.3.1 The Extent to which Internal Audit Standards are Adhered to at NEC

The findings on extent to which internal audit standards are adhered to at NEC, as reflected in the first research objective and shown in Table 6 revealed that the

majority of respondents disagreed to statements that internal audit was regularly carried out, internal audit reports were communicated to stakeholders, internal auditors had the right qualifications, as well as internal audit reports were externally investigated. Moreover, the majority of respondents were uncertain as to whether there was transparency and accountability, internal auditing was carried out at minimum possible costs, as well as the use of proper auditing software. Lastly, the majority of respondents agreed that automated systems were used in internal auditing.

The majority of the respondents indicated that internal audit was not regularly carried out. The researcher was also told during interview that internal auditing was carried out at least once per year. Moreover, carrying it out depended on the availability of funds for the exercise because it was time-consuming and also costed a lot of money. These findings corroborate with Mmasi (2005)'s who found out that internal auditing was not periodically carried out, the major reason being lack of funds and resources to support periodic auditing as well as inadequacy of staff to carry out auditing functions. No matter what the reasons are, internal auditing needs to be carried out regularly to eliminate the possibility of any misuse of the organisation's funds by a few.

The majority of respondents also indicated that internal auditors did not have the right qualifications. Lack of internal audit qualifications implies that their ability to do their work according to internal audit standards is questionable. During interview it was noted that the internal auditors had professional qualifications in accountancy,

and used those skills to perform their internal auditing tasks. This seems to be justified by the fact that internal auditing is not necessarily a daily task as accounting is. This is misleading, since internal auditing is very crucial in ensuring the fiscal health of any organisation, making it possible to detect any fraud or misuse of funds so that remedial measures can be taken. Past studies, such as of Mwanri (2009) also revealed that internal auditors were inadequately competent and so fraud detection by them was low, which could signify that the parent organisation had sound corporate governance. Employment of internal auditors possessing the right qualifications was seen as the major remedial measure.

Also the majority of respondents indicated that internal audit reports were externally investigated. It was revealed that the internal auditors were accountable to their management, and so internal auditing reports might be influenced by the management, as they were the ones who were responsible with the way funds are used in the organisations. This factor can result in biased internal auditing reports, since such reports must be approved by the management before being forwarded to stakeholders.

4.3.2 Challenges Hindering the Effectiveness of Internal Audit at NEC

The second objective sought to find out challenges hindering the effectiveness of internal audit at NEC. The findings as presented in Table 7 revealed a number of challenges which hindered the effectiveness of internal auditing at the surveyed organisation. These challenges include lack of independence from employer, inadequate skills among internal auditors, inadequate facilities at the internal audit department, inadequate funds to carry out internal audit, inadequate cooperation

among staff, limited transparency and openness, as well as lack of commitment from management staff.

One of the responses mentioned by the respondents was lack of independence from the employer. This is due to the fact that internal auditors report to the employer. The fact that internal auditors report to an organisation's management, with little or no involvement of external auditors in the auditing process means that financial auditing is not conducted in an objective way, and can imply fraud and the improper use of the organisation's funds.

These findings coincide with findings by Deemay (2009) who found out that internal auditor independence was questionable due to lack of rotation of the internal auditors. Moreover, Tinkasimile (2009) found out that the internal auditor independence was inadequate because internal auditors reported to the management, which meant that any internal audit reports were first reviewed by the management for the approval before being forwarded to relevant bodies. Objectivity in the conducting of financial auditing needs to be assured, and the auditing results also need to be communicated to the stakeholders for increased accountability and transparency. Failure to be accountable and transparent is a sign of bad leadership, meaning that things are done not for the benefit of the stakeholders but for their own interest. This situation can affect the quality of output of the financial statements and reports.

Another response given by the respondents was inadequate skills among internal auditors. Previous studies, such as of Mbogella (2011) and Apostolou *et al.* (2001)

reveal that this is one of the major problems hindering good corporate governance in many organisations. The respondents asserted that the internal auditors possessed accountancy qualifications (including CPA), but none possessed internal audit qualifications. However, this problem exists at a national level, because while there are many colleges that offer accountancy courses, there is no college that offers auditing courses.

This makes it difficult for internal auditors to possess professional qualifications in their career or upgrade their professional qualifications. Further information obtained showed that in the whole of East Africa, only Kenya had a college that specialised in auditing, and this implies that if internal auditors' skills need to be upgraded, they should be provided with scholarships to go and study in Kenya or other countries, which is costly. There is a need to establish an auditing college in the country.

Another response given by the respondents was inadequate internal auditors. It was revealed that there were only six internal auditors, and this affected internal auditing functions, as internal auditing was done less regularly, specifically in the zones. Various past studies such as Swai (2006) had also indicated this to be a major barrier to effective internal auditing functions in many organisations.

Given the fact that internal auditing is a very effective tool in any sound fiscal management system, priority needs to be accorded to ensure adequacy of well-trained internal auditors who will conduct regular internal auditing, according to established standards.

4.3.3 Strategies to Adopt in Order to Enhance the Effectiveness in Internal

Audit at NEC

The findings on strategies to adopt to enhance effectiveness of Internal audit at NEC, as shown in Table 8 revealed that should be enforcement of internal audit standards, ensure independence of internal auditors, recruitment of qualified internal auditors, regular internal auditing and prioritise in staff training and development. Moreover, it was recommended to allocate more funds for internal auditing, improve the working environment, update hardware, software and working tools, ensuring transparency and openness, intensify efforts against corruption, as well as cooperation during the process of auditing.

One of the responses given by the respondents was enforcement of internal audit standards. This is very crucial as it will help in ensuring that internal auditing does what it is expected to do—that is, help in ensuring the fiscal health of the organisation. To this effect, it is necessary to ensure independence and autonomy of well qualified internal audit staff. The management staff contended that efforts were done to ensure that internal auditors have the right qualifications and knowledge of the internal auditing profession.

Another recommendation given by the respondents was to ensure independence of internal auditors. It was noted that the channel of reporting should not be to the accounting officer in order to have complete independence. Independence of internal auditors will help to ensure that internal audit standards are adhered to, which means assured objectivity in the internal audit process. This will help to ensure fiscal stability.

Respondents also recommended that there should be recruitment of qualified internal auditors. There is a need to ensure adequacy of internal auditors so that internal auditing may be done more effectively.

Another recommendation given by the respondents was to improve the working environment. This can cut across not only physical facilities but also incentive packages to internal auditors. Due to their inadequacy, they should be motivated so that they may do their job more effectively.

The respondents also recommended that hardware and software should be updated. As technology and software keep changing from time to time, there is a need to ensure that up-to-date hardware and software are acquired so as to keep with the global pace. This will help to ensure efficiency through having compatible hardware and software.

Ensuring transparency and openness in the auditing process were other recommendation given by the respondents. What is implied here is that the results of internal auditing should be communicated to the stakeholders. This is a key point to consider in ensuring corporate governance.

CHAPTER FIVE

5.0 CONCLUSION, RECOMMENDATIONS AND AREAS FOR FURTHER STUDIES

5.1 Introduction

The main concern of this study was to analyse factors that influence internal audit operations in electoral bodies. Specifically, the study aimed at identifying the extent to which internal audit standards are adhered to at NEC, find out challenges facing the effectiveness in internal audit at NEC, as well as find out how best the challenges can be addressed. The study was carried out in Dar es Salaam, at the NEC headquarters. The aim of this chapter is to present the conclusion, recommendations and areas for further studies.

5.2 Conclusion

The findings on the extent to which internal audit standards are adhered to at NEC revealed there are inadequacies in adherence to internal audit standards. This was indicated by the majority of respondents who disagreed to the statements that internal audit was regularly carried out, internal audit reports were communicated to stakeholders, internal auditors had the right qualifications, as well as internal audit reports were externally investigated. Moreover, the majority of the respondents were uncertain as to whether there is transparency and accountability, internal auditing was carried out at minimum possible costs, as well as the use of proper auditing software. The fact that there are inadequacies in adherence to internal audit standards requires that proper measures be should be immediately taken to address the

situation since the effectiveness in internal auditing is very crucial in ensuring good governance, accountability and sound fiscal health on any organisation.

The findings related to challenges hindering effectiveness of internal auditing revealed lack of independence from employer, inadequate skills among internal auditors, inadequate facilities at the internal audit department, inadequate funds to carry out internal audit, inadequate cooperation among staff, limited transparency and openness, as well as lack of commitment from management staff to be the major challenges. In particular, lack of independence and autonomy from the employer are notable bottlenecks, and these are common problems in many organisations. There is a need to ensure objectivity through ensuring autonomy of the internal auditors or through involvement of external auditors.

The respondents gave a number of recommendations on strategies to adopt in order to enhance the effectiveness in Internal Audit at NEC. This recommendation include the enforcement of internal audit standards, ensuring independence of internal auditors, recruitment of qualified internal auditors, regular internal auditing, prioritising in staff training and development. Other recommendation are allocating more funds for internal auditing, improving the working environment, updating hardware, software and working tools, ensuring transparency and openness, intensify efforts against corruption, as well as cooperation during the process of auditing. It is expected that if these recommendations by the respondents are put into effect, then there will be effectiveness in internal auditing.

5.3 Recommendations

Based on the study findings, the following are recommended:

- (i) Training of internal auditors should be ensured. This will involve sending them abroad for that opportunity. In addition, a college that specializes in auditing should be established in Tanzania. Training can be formal, such as attending courses, or informal such as attending seminars and conferences.
- (ii) Independence of internal auditors should be ensured. This can be done through periodic transfer of internal auditors and/or regular involvement of external editors, so as to ensure objectivity.
- (iii) There is a need to upgrade hardware and software used for internal auditing
- (iv) There is a need for staff recruitment with the aim of ensuring that there are adequate internal auditors. This should be done hand in hand with upgrading the skills of the available internal auditors.
- (v) The working environment should be improved.
- (vi) Efforts against corruption should be intensified.

5.4 Areas for Further Studies

This study focused on assessing the factors influencing internal audit operations in Electoral Bodies as government institutions. There is a need to carry out a similar study in other organisations, both public and private, in order to get further input on the topic.

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World Bank 2000 Corporate Governance: A Framework for Implementation

APPENDICES

Appendix I: Questionnaire for Non-Management Staff at NEC

I am a student of the Open University of Tanzania proceeding on research titled *“Factors influencing Internal Audit operations in Electoral bodies: An Empirical Analysis of Tanzania Electoral Commission (NEC)”*. The findings are to assist in improving internal auditing. I request you to fill this questionnaire. The information you provide will be used for academic purposes only and not otherwise. I forward my thanks to you in advance.

Please circle the right response or fill in blank spaces as appropriate.

1. Gender

1=Male

2=Female

2. Age range

1=Less than 30 years

2=30-39 years

3=40-49 years

4=50 years and above

3. Designation.....

4. Educational qualifications

1=University degree

2=College diploma

3=Certificate

4=Other (Please indicate)

5. Experience at the organization (years)

1=Less than 2 years

2=2-5 years

3=more than 5 years

6. How many internal auditors are there at this organization?.....

7. Are they adequate?

1=Yes

2=No

8. How competent are they?.....

1=Adequately competent

2=Competent

3=Inadequately competent

4=Incompetent

9. How often is internal auditing carried out at this organization?.....

1=Once in a year

2=Once in two years

3=Other (please specify).....

10. Are established internal auditing standards adhered to?

1=Yes

2=No

11. Are training opportunities provided to internal auditors and other staff by the employer?

1=Yes

2=No

12. Are there incidents of fraud at this institution?

1=Yes

2=No

13. How competent are internal auditors in carrying out their daily activities?

Circle (1-4) for each item as appropriate

Activity	Not skilled	Inadequately skilled	Skilled	Very skilled
Using computerised systems	1	2	3	4
Using internal auditing software	1	2	3	4
Using job-related software	1	2	3	4
Professional internal auditing skills	1	2	3	4
Other (Please specify)	1	2	3	4

14. Indicate the extent to which you agree or disagree to the following statements

related to internal audit standards at this organisation. Circle (1-5) for each item as appropriate (*1=Strongly disagree; 2=Disagree; 3=Neutral; 4=Agree; 5=Strongly agree*)

Factor	Strongly disagree	Disagree	Neutral	Agree	Strongl y agree
Internal audit is regularly carried out	1	2	3	4	5
Internal audit reports are communicated	1	2	3	4	5
Internal auditors have the right qualifications	1	2	3	4	5
Internal audit reports are externally investigated	1	2	3	4	5
There is transparency and accountability	1	2	3	4	5
Internal auditing is carried out at minimum possible costs	1	2	3	4	5
Automated systems are used in internal auditing	1	2	3	4	5
Proper auditing software is used	1	2	3	4	5

15. How often are the following functions related to internal auditing carried out?

Circle (1-4) as appropriate

Function	Always	Sometimes	Never	I don't know
Internal auditing	1	2	3	4
Participation of external auditors	1	2	3	4
Communication of auditing information	1	2	3	4
Staff participation in meetings	1	2	3	4
Upgrading of staff skills	1	2	3	4
Other(Please specify)	1	2	3	4

16. What challenges are faced in internal auditing?.....

.....

17. How best can the challenges be addressed?.....

.....

18. Any other comment.....

.....
 ...

Appendix II: Interview Guide for Management Staff

1. How many internal auditors are there at this organisation?
2. Are they adequate?
3. How competent are they?
4. How often internal auditing is carried out at this organisation?
5. Are established internal auditing standards adhered to?
6. Are internal audit reports communicated?
7. Does the organization provide training opportunities to internal auditors and other staff?
8. Are there incidents of fraud at this institution?
9. What challenges are faced in internal auditing?
10. What is being done to address the challenges?

Thank You for Your Time and Input